

Business Growth Summary –
Lewis, V., & Churchill, N. (1983). The five stages of small business growth.
Harvard Business Review, 61(3), 30-50.

Business Growth

Growing concerns

This article categorizes the problems and growth patterns of small businesses in a systematic way to help entrepreneurs develop their business effectively. Small businesses vary widely in size and capacity for growth. They are characterised by independence of action, differing organizational structures and varied management styles.

Key questions in each growth stage

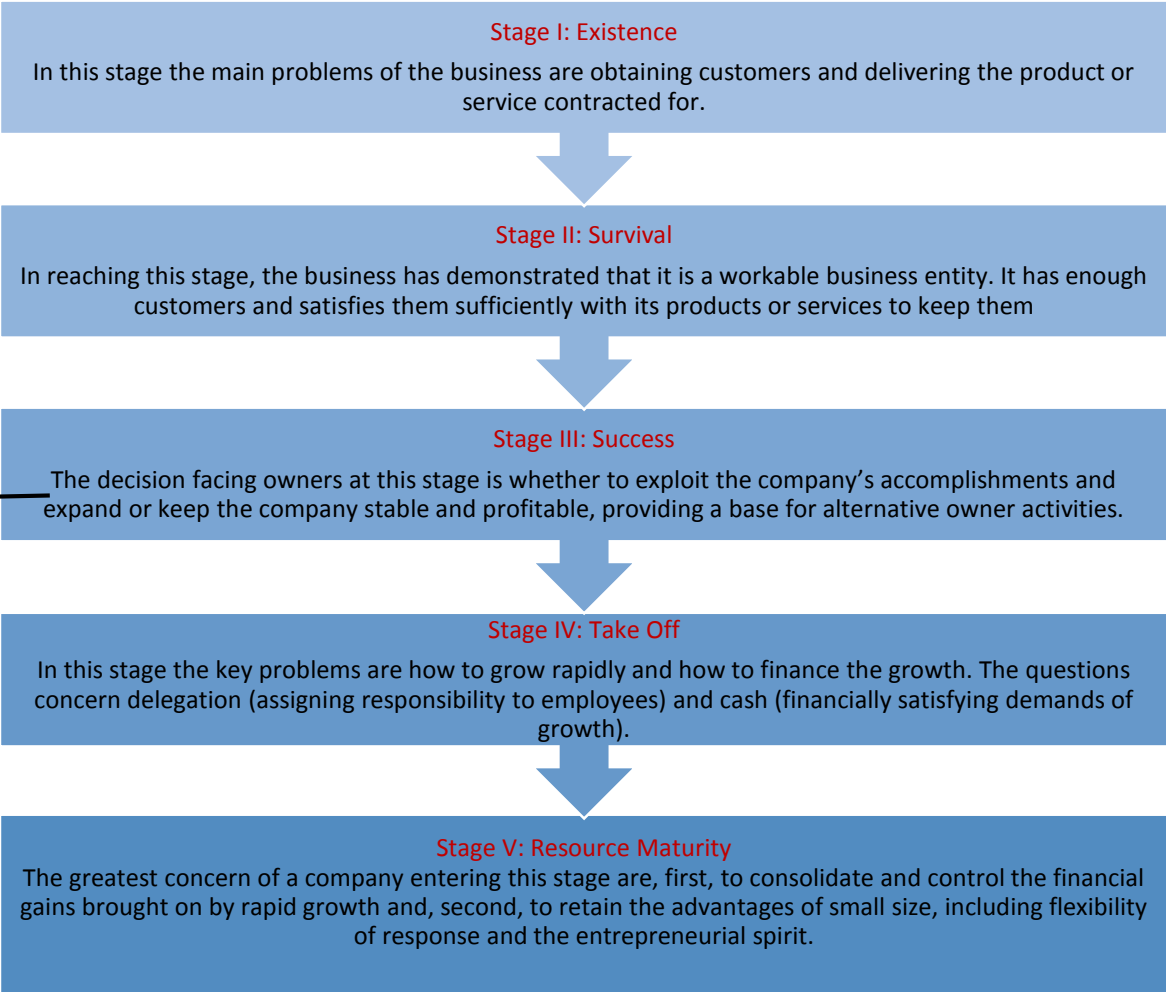
1. Existence
 - Can we get enough customers, deliver our product(s), and provide services well enough to become a viable business?
 - Can we expand from that one key customer or pilot production process to a much broader sales base?
 - Do we have enough money to cover the considerable cash demands of this start-up phase?
2. Survival
 - In the short run, can we generate enough cash to break even and to cover the repair or replacement of our capital assets as they wear out?
 - Can we generate enough cash flow to stay in business and to finance growth?
3. Success
 - Should we exploit the company's accomplishments and expand? Or keep the company stable and profitable, providing the base for alternative owner activities?
4. Take off
 - Delegation – Can the owner delegate responsibility to others to improve the managerial effectiveness of a fast growing and increasingly complex enterprise?
 - Cash – Will there be enough cash to satisfy the demands of growth (owner tolerate high debt-equity ratio)?
5. Resource maturity
 - Can we preserve our entrepreneurial spirit by fostering innovation to maintain our market share in the long run? How can we sustain our competitive advantage?

Sub-stages (III)

A) Success disengagement:
The company has attained true economic health, has sufficient size and product-market penetration to ensure economic success, and earns average or above-average profits.

B) Success-growth:
The owner consolidates the company and marshals resources for growth. The owner takes the cash and the established borrowing power of the company and risks it all in financing growth.

The five stages of business growth



Key Management Factors

Company related factors:

1. Financial resources, including cash and borrowing power.
2. Personnel resources, relating to numbers, depth, and quality of people, particularly at the management and staff levels.
3. Systems resources, in terms of the degree of sophisticated of both information and planning and control systems.
4. Business resources, including customer relations, market share, supplier relations, manufacturing and distribution processes, technology, and reputation, all of which give the company a position in its industry and market.

Owner related factors:

1. Owner's goals for himself or herself and for the business.
2. Owner's operational abilities in doing important jobs such as marketing, inventing, producing, and managing distribution.
3. Owner's managerial ability and willingness to delegate responsibility and to manage the activities of others.
4. Owner's strategic abilities for looking beyond the present and matching the strengths and weaknesses of the company with his or her goals.

Characteristics of small business at each stage of development

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EXHIBIT 3

Characteristics of Small Business at Each Stage of Development

	Stage I Existence	Stage II Survival	Stage III-D Success-Disengagement	Stage III-G Success-Growth	Stage IV Take-off	Stage V Resource Maturity
Management style	Direct supervision	Supervised supervision	Functional	Functional	Divisional	Line and staff
Organization						
Extent of formal systems	Minimal to nonexistent	Minimal	Basic	Developing	Maturing	Extensive
Major strategy	Existence	Survival	Maintaining profitable status quo	Get resources for growth	Growth	Return on investment
Business and owner*						

*Smaller circle represents owner. Larger circle represents business.

Avoiding future problems

Nearly every factor except the owner's "ability to do" is crucial. In the Take Off stage there are potentially large rewards. Owners who want such growth must ask themselves:

- Do I have the quality and diversity of people needed to manage a growing company?
- Do I have now, or will I have shortly, the systems in place to handle the needs of a larger, more diversified company?
- Do I have the inclination and ability to delegate decision making to my managers?
- Do I have enough cash and borrowing power along with the inclination to risk everything to pursue rapid growth?

Management factors and stages

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EXHIBIT 5

Management Factors and the Stages

